BEFORE THE ARIZONA CORPORATION COMMISSION

In the Matter of the Commission's investigation to address energy efficiency/demand side management ("EE/DSM"), cost-effectiveness of EE/DSM as currently administered, EE/DSM cost recovery methodologies (including the Energy Efficiency Resource Plan proposed in the Tucson Electric Power Company rate case Settlement Agreement, Decision No. 73912), need or not for EE/DSM performance incentives, EE/DSM as part of the Commission's Integrated Resource Plan process, and possible modification of current EE/DSM and Integrated Resource Plan rules	§ § § § § § § § § § § § § §	Docket No. E-00000XX-13-0214

COMMENTS OF OPOWER, INC.

November 18, 2014

Charlie Buck
Manager, Regulator Affairs
Opower, Inc.
760 Market Street, Fourth Floor
San Francisco, CA 94102
Charlie.buck@opower.com

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COMMENTS OF OPOWER, INC.

Opower, Inc. ("Opower") appreciates this opportunity to respond to the Arizona Corporation Commission's ("Commission") Request for Informal Comment on draft proposed amendments to the Commission's energy efficiency ("EE") rules for electric and natural gas utilities.

On November 4, 2014, Steven Olea, Director, Utilities Division at the Commission issued a letter requesting informal comments on a draft proposal to significantly modify the Commission's energy efficiency rules. Specifically, the proposal would eliminate Arizona's energy efficiency resources standard ("EERS"), which requires investor owned electric utilities in the state to achieve cumulative savings of 22% of retail electric energy sales and 6% of retail gas sales by 2020.[1] The draft proposal would make other substantive changes to the energy efficiency rules, including modifying the cost-effectiveness test for EE programs, changing reporting requirements, and disallowing utility proposals for performance incentives.

Opower respectfully urges the Commission to maintain the current EE rules as they exist today. These rules have made Arizona a national leader on energy efficiency

[1] As adopted in A.C.C. Order 71819, August 10, 2010

and have provided stability and certainty for utilities, customers, and businesses in the state. The changes contemplated would represent a step in the wrong direction for Arizona and would result in the dismantling of a framework that has helped Arizonans save more than $540 million on their energy bills.[2]

A. Introduction and Summary

Opower provides demand-side management and customer engagement services to more than 90 electric and natural gas utilities in over 30 states and 9 countries. As a leading provider of behavioral energy efficiency, demand response, and customer engagement to the utility industry, Opower's programs have resulted in more than 5 terawatt-hours of energy savings to date. By delivering personalized energy information through mail, e-mail, web, and text, Opower works with utilities to empower customers to make informed decisions about their energy use. Households and businesses that receive Opower's Home Energy Reports reduce their electric usage by 1.5-3.0% on average and save 1.0-1.5% in natural gas usage as well. These results have been measured and verified by over 45 independent evaluations of programs across millions of households.[3]

Opower is concerned that the modifications to the EE rules contemplated in this proposal will undermine the achievements of the Commission's own policies aimed at reducing overall costs to ratepayers in Arizona and helping customers save on their energy bills. The Commission's forward-thinking EE rules have spurred programs overseen by the state's electric and natural gas utilities that have helped customers save nearly half a billion dollars on their energy bills. The proposal to modify the EE rules provides no clear rationale for such sweeping changes and the Commission should not turn away from the policies that have been so successful over the past five years. Doing so will greatly reduce the ability of Arizonans to manage energy bills in their homes and businesses and will increase system costs in the long run.

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[2] As shown in the Arizona Public Service and Tucson Electric Power's Annual DSM Progress Reports, 2011-13
[3] Independent evaluations of Opower programs can be found at: http://opower.com/company/library/verification-reports

B. Energy Efficiency Benefits all Arizona Customers

Energy efficiency has been and continues to be the most cost-effective resource for meeting the energy demands of homes and businesses, both in Arizona and throughout the world. By avoiding the construction of new power plants and infrastructure, energy efficiency programs generate significant long-term savings for ratepayers. Since 2010, energy efficiency programs in Arizona have produced more than $714.2 million in net benefits to the overall system and ratepayers.[4] Much of this has occurred thanks to Arizona's policy framework and, specifically, the EERS.

Energy efficiency also helps Arizonans save money on their energy bills. For example, Opower's energy efficiency programs have helped customers save over $8.8 million since 2010. That's almost $9 million put back in the pockets of Arizonans to invest in their homes, families and communities; thereby contributing to further economic growth. And that's just one program of many developed in response to the Commission's EE policies.

The Commission's energy efficiency framework has also helped to create thousands of well-paying jobs in Arizona that cannot be outsourced. Home retrofits, commercial building upgrades, and installation of efficiency equipment not only saves money for the business, building, or home-owner, but have put thousands of Arizonans back to work. Many of these new jobs are filled by Arizonans formerly employed in sectors that have been hard-hit by the recession and collapse of the housing market.

C. Energy Efficiency is Cost-Effective in Arizona

Energy efficiency is not only beneficial to Arizonans; it is also highly cost-effective. The EE portfolios designed and administered by electric and natural gas utilities have produced between $1.55 and $3.00 of ratepayer benefits for every $1.00 spent on programs.[5] As previously noted, the net benefits of EE programs in Arizona since 2010 have reached $714.2 million. While much has already been done in Arizona since the

[4] As shown in the Arizona Public Service and Tucson Electric Power's Annual DSM Progress Reports, 2010–13
[5] Citation

adoption of the EERS to improve efficiency, there is still a great deal of cost-effective energy savings available. The EERS has provided a much-needed jumpstart, but many customers have not yet participated in EE programs. To unlock this potential, new data-driven tools and strategies are enabling utilities to increasingly engage customers on a scale that was not previously feasible.

Opower currently works in a number of states that have supported energy efficiency programs for decades, and thanks to constant advances in technology and reductions in costs, none of these states has reached a point at which additional EE investments are no longer cost-effective. Arizona is only four years into the implementation of the EERS, and while some of yesterday's "low-hanging fruit" may have been harvested, plenty of existing cost-effective measures and programs have not yet been adopted. In addition, states that have significantly invested in EE for several decades continue to uncover additional opportunities to deploy cost-effective new technologies and approaches. For example, according to Opower's analysis, Arizona has the highest cost-effective potential for savings on a per-household basis ($38.23 per year) of any state from behavioral energy efficiency interventions alone.[6] Arizona ratepayers should not be denied the opportunity to continue reaping the benefits of cost-effective energy efficiency programs.

D. The Existing Energy Efficiency Rules Should be Maintained

The Commission's 2010 energy efficiency rules have made Arizona a national leader in helping its citizens to save energy and money on their utility bills. They set aggressive, but achievable savings targets for the state's utilities, and ensure that the investment of ratepayer funds yields substantial returns while also allowing the Commission a great deal of flexibility in its enforcement and implementation of the rules.

The Energy Efficiency Resource Standard

The centerpiece of these rules is the EERS, which sets clear expectations for utilities and creates certainty in the marketplace for both customers and the businesses that

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[6] To find more information about the cost-effective potential of behavioral energy efficiency, resource can be found here: http://www.opower.com/beepotential/ - us

provide energy efficiency services in Arizona. To say that the effect of the EERS on energy efficiency investment in Arizona has been significant would be an understatement.

Since the EERS was put in place, Arizona utility customers have saved more than half a billion dollars on their energy bills thanks to the resulting energy efficiency programs. The American Council for an Energy Efficiency Economy ("ACEEE") ranks states according to their achievements and policies to help customers reduce their energy use each year. In 2009, Arizona ranked 29 out of 50. In 2011, the state moved up to 17, and in ACEEE's 2014 scorecard released in October, Arizona now ranks 15 out of 50.

The EERS encourages utilities to invest resources in long-term assets, from expert DSM staff to long-term market transformation initiatives. Knowing that they will have to meet aggressive EE targets for years to come helps motivate utilities to make energy efficiency part of their business. Opower cautions that removal of the EERS can have the opposite effect, and utilities will not have the appropriate policy signals to continue to aggressively pursue energy efficiency opportunities.

Working in more than 30 states means Opower has experience in a variety of policy environments, and the level of investment in EE in states that have an EERS in place is markedly higher than in those that do not. In fact, a 2011 survey of energy savings by state found the only states that reported achieving energy savings above 1% were those with an EERS in place.[7]

In order to continue the nationally recognized progress made by Arizona over the past four years, it is imperative that the EERS remain in place. Opower urges the Commission to reject any proposal that seeks to remove this critical policy framework.

Cost-Effectiveness

In order to ensure that the benefits from energy efficiency investments are greater than the costs, the Commission's EE rules include a robust system of checks and balances. According to R14-2-2412, utilities must ensure that the incremental benefits exceed the incremental costs of the EE portfolio, and portfolios that are not cost-effective

[7] Downs, Annie & Cui, Celia. *Energy Efficiency Resource Standards: A New Progress Report on State Experience.* April, 2014.

will not be approved. This section of the EE rules guarantees consumers that they are not spending more on energy efficiency programs than they are getting back in overall system benefits.

Flexibility

The draft amendments propose to eliminate the EERS goals in favor of setting goals for the utilities on a biennial basis through the integrated resource planning process. While no rationale is explicitly stated for this change, it is worth noting that the Commission already has all the flexibility it needs to modify an individual utility's EE goals through the DSM application process.

The EERS is instrumental in setting expectations for utilities' energy efficiency programs; however, it is not binding on the Commission itself. When appropriate and necessary, the Commission can and has exercised flexibility in its implementation and enforcement of EERS goals. Therefore it is unnecessary to modify the existing rules to provide the Commission with flexibility to modify goals for each utility.

Energy Efficiency Assists with Renewables Integration

As the penetration of renewables increases in Arizona, energy efficiency will be needed to help mitigate the impacts of intermittency on the grid. A recent paper published by the Natural Resources Defense Council demonstrates how energy efficiency can significantly decrease the need for fast-ramping resources, such as energy storage and quick-start gas power plants. By reducing the overall load on the grid during the hours when renewables are shutting down, the need for new resources that can come online quickly to meet demand are reduced and integration of renewables can be achieved cost-effectively and without disruption to grid services.[8] Losing the significant energy efficiency investments that result from the EERS will make the task of managing renewable integration more arduous for regulators and costly for ratepayers.

E. Time for Stakeholder Input

[8] Martinez, Sierra and Dylan Sullivan. *Using Energy Efficiency to Meet Flexible Resource Needs and Integrate High Levels of Renewables into the Grid.* 2014.

Opower is concerned about the relatively fast timeline associated with the informal comment process, considering the magnitude of the changes being contemplated. If the Commission chooses to move forward with changes to the existing energy efficiency rules, it is critical that there be an extended time period for stakeholder input, including reply comments and more formal opportunities to discuss the substance of the proposed changes. Before adopting the current EE rules, the Commission engaged in a robust stakeholder process over the course of a full year. This included nearly a dozen workshops and technical working group meetings as well as a five-month comment period in order to build a solid record to form the basis of a formal rulemaking. To summarily open a new rulemaking to overturn nearly every aspect of these rules after allowing just one round of comments over a period of two weeks would be a significant departure from the Commission's historical protocol. Furthermore, severely limiting stakeholder input creates a high risk that the Commission will enact policies that lead to negative unintended consequences. Opower therefore urges the Commission to allow for a thoughtful and substantive process to allow for stakeholder input before moving forward in any official rulemaking.

F. Conclusion

The energy efficiency rules put in place by the Commission in 2010 have done what they were intended to do: drive significant energy and cost savings for Arizona's business and residents. Utilities in Arizona have responded by designing and administering cost-effective program offerings that have saved customers hundreds of millions of dollars over the past four years alone. With the certainty and stability provided by the EERS, utilities have continually invested in cutting edge solutions and the marketplace of energy efficiency businesses has risen up to meet the need, creating well-paying jobs for Arizonans along the way.

The Commission should continue to lead by maintaining the current rules and rejecting these proposed modifications. If, after consideration of the comments received on November 18, the Commission feels it is necessary to consider rule changes, it should allow for further opportunities and time for stakeholder engagement.

Opower thanks the Commission for providing this opportunity to submit comments on the proposed draft amendments to the energy efficiency rules and appreciates its consideration of parties' input.

Respectfully Submitted,

Dated: November 18, 2014

Charlie Buck

Charlie Buck
Manager, Regulatory Affairs
Opower, Inc.
760 Market Street, Fourth Floor
San Francisco, CA 94102
Charlie.buck@opower.com